

Chapter 1 - The Nature of Strategic Management

Overview

Chapter 1 introduces the basic terms in strategic management. This chapter presents the comprehensive model for strategic planning that appears in each subsequent chapter and provides a unifying, logical flow for the entire textbook. This chapter describes the benefits of doing strategic planning, the drawbacks of not doing strategic planning, and the pitfalls of doing strategic planning incorrectly.

Learning Objectives

The Chapter 1 Learning Objectives presented in the textbook are reiterated below:

1. Describe the strategic-management process.
2. Discuss the nature of strategy formulation, implementation, and evaluation activities.
3. Define and give examples of key terms in strategic management.
4. Explain the need for integrating analysis and intuition in strategic management.
5. Discuss the nature and role of a chief strategy officer (CSO).
6. Describe the benefits of good strategic management.
7. Explain why some firms do no strategic planning.
8. Discuss the relevance of Sun Tzu's *The Art of War* to strategic management.
9. Discuss how a firm may achieve sustained competitive advantage.

Teaching Tips

1. Spend about 20 minutes going over the comprehensive strategic-management model in Figure 1-1, highlighting each component part with examples. This model integrates all the chapters in the book in a clear process approach to this course. Going over this model is an excellent way to cover the terms introduced in the chapter.
2. Pull up the new and improved author website for this textbook, because it has great resources for students. The URL is www.strategyclub.com. In class, listen to the 4-minute author video at this website for "Why is Chapter 1 so Important?" Spend perhaps a whole class on the author website using the many resources there to give an overview of the whole strategic-management process.
3. The Edward Deming quote mentioned in Chapter 1 (In God We Trust, All Others Bring the Data) is vitally important in this course, because students tend to use vague terms throughout their case analysis. Vagueness is detrimental to development of any strategic plan. Therefore, highlight and emphasize the relevance and importance of the Deming quote and tell students that vagueness is disastrous in this course. Strategies

must be formulated to the extent possible on factual, specific, underlying key internal and external factors, rather than trying to formulate strategies based on general statements, opinion, or intuition.

4. A new feature of this edition is the Academic Research Capsules that reveal current research findings on various strategy topics. The first capsule appears early in Chapter 1 titled “When are Chief Strategy Officers (CSOs) Hired/Appointed?” Mention this new feature and this first capsule.
5. Go over the new Table 1-1 that reveals ten famous, strategic planning relevant quotes from NFL coaches. These quotes are all applicable to effectively formulating and implementing strategies.
6. Make sure students can define and give an example of all the strategic-management terms introduced in this chapter – because these terms are used throughout the textbook and in most businesses.
7. Highlight Figure 1-2 on “the benefits of doing strategic planning.” Use that exhibit to emphasize the many benefits of doing strategic planning, as well as the drawbacks of not doing strategic planning.
8. Ask students to raise their hand if they played football, basketball, or soccer for the college/university. Ask several of those athletes to “tell the class how important having a good game plan is to the success of an athletic team.” Associate their answers to the importance of a business having a good game plan, i.e., strategic plan.
9. Regarding the “Comparing Business and Military Strategy” section, emphasize to students that there are countless examples in military history where a superior army was defeated by a smaller army that had a better strategic plan. The famous general, Alexander the Great, who never lost a battle, said (paraphrased): “I’d rather face an army of lions led by a sheep, than an army of sheep led by a lion.” That quote emphasizes the importance of strategic planning, and having an excellent strategist. All the Notable Quotes given at the www.strategyclub.com website under Student Resources are outstanding.
10. Go over the “Implications for Strategists” (new to the 16th edition) and the “Implications for Students” sections at the end of this chapter.
11. For the first time ever, each chapter concludes with a mini-case designed to apply chapter concepts and techniques. The Chapter 1 mini-case is on Kroger Company – an American firm that may do the best job of strategic planning among all firms. Go over the mini-case in this and all chapters.
12. All end-of-chapter review questions are excellent to go over as many as possible in class. Sometimes in class, the authors will assign every student a question and give the class 10 minutes to develop answers and then let each student give the class the answer,

and then comment on the answer (answers to all questions are given later in this manual). This is a great way to promote teacher/student interaction.

13. Ask students to read the Hershey Company Cohesion Case presented after Chapter 1 because a third of all the end-of-chapter exercises at the end of every chapter apply chapter concepts to the Hershey case – thus preparing students for developing a case analysis on their assigned company. Divide students into 3- or 4-person teams within the first two weeks of class and assign to them one of the 30 cases in the book, and schedule a day for the teams to each give a 15 to 20 minute oral presentation revealing their recommended three-year strategic plan for the firm. The authors and most professors using this book use this approach.

14. It is important to spend some class time also on Exercise 1B that applies the strategic-management process to the Hershey Company Cohesion Case. Visit the websites mentioned in this exercise. Show students important strategic information at those websites. Make sure students understand the basic strategic-planning process as applied to Hershey and revealed in that exercise. Associated exercises at the end of other chapters utilize the information obtained from Exercise 1B and collectively help prepare students for performing case analysis on their assigned company.

15. A popular exercise at the end of Chapter 1 is 1D titled “Strategic Planning for My University.” You could spend a whole class day on this exercise alone. Definitely spend some time on this exercise because associated exercises at the end of each chapter apply strategy concepts to your college/university. Students are very knowledgeable about their university and their opinions differ widely as to strengths/weaknesses and opportunities/threats/strategies. Thus, spending class time working through this exercise will reveal to students how opinions vary regarding the importance of various factors/issues; opinions also vary in companies doing strategic planning. We use this exercise also to facilitate teacher/student interaction as well as student/student interaction, which is especially beneficial to do early in the semester.

16. You could spend a whole class period on Exercise 1F. The author website is extremely useful for students. The Excel template is vital, the videos are well worth showing, the case and chapter updates are excellent, and the Student Resources are very helpful. The two sample case analysis projects showcase how to prepare a strategic plan.

17. The new Exercise 1G could be assigned for extra credit because students enjoy comparing and contrasting game plans with strategic plans.

18. Skip over to the last two pages in the book (pp. 364-365), i.e., in the How To Analysis A Case section that appears after Chapter 11. Go through that basic timeline/outline for a strategic management case analysis – so students will know what is expected of them in terms of preparing their case analysis/project for the course. Refer back to these three pages often in the course, because students will often ask what they are supposed to do or prepare to present.

19. Encourage your students to use the free Excel Student Template at the author website at www.strategyclub.com. Your students will find this template to be immensely helpful in this course. Plus, two example strategic-management case projects are provided at this website as a guide for students to follow.

Answers to End-of-Chapter 1 Review Questions

1-1. Diagram the comprehensive strategic-management model.

Answer: See Figure 1-1 in Chapter 1.

1-2. Develop a diagram to reveal the benefits to a firm for doing strategic planning. Include “improved understanding,” “enhanced communication,” “all managers and employees on a mission,” and “greater commitment” – in the correct order.

Answer: See Figure 1-2 in Chapter 1.

1-3. How important do you feel “having an excellent game plan” is to winning a basketball or football game against your university’s major rival? Discuss.

Answer: Having an excellent game plan oftentimes is the key difference between winning and losing in an athletic event. A reason for this is that in most leagues in most sports, there is growing parity in terms of talent and skills among players. Player desire, motivation, and other intangible factors play a significant role in winning or losing, but every player relies on the head coach to develop an effective game plan by watching film of rivals’ prior games and studying the opponents’ strengths, weaknesses, and strategies – and devising a winning plan of action. Outstanding coaches are often paid millions of dollars, for example in Division 1 college football and basketball, partly because they have demonstrated superior expertise in devising excellent game plans versus rival teams.

1-4. Are “strategic management” and “strategic planning” synonymous terms? Explain.

Answer: The term “strategic management” in this text is used synonymously with the term “strategic planning.” The latter term is more often used in the business world, whereas the former is often used in academia. Sometimes the term “strategic management” is used to refer to strategy formulation, implementation, and evaluation, with “strategic planning” referring only to strategy formulation.

1-5. Why do many firms move too hastily from vision/mission development to devising alternative strategies?

Answer: Firms that move too hastily from vision and mission development to devising alternative strategies are overlooking two important steps in the strategic management process: 1) identify and evaluate internal strengths/weaknesses and 2) identify and evaluate external opportunities/threats. Reasons why many firms are negligent in this regard include 1) laziness, 2) lack of time, 3) lack of

knowledge, 4) unwillingness to do research to find specific facts and figures, and 5) unaware that matching key external with internal factors is a key to strategy formulation.

1-6. Why are strategic planning retreats often conducted away from the work site? How often should firms have a retreat, and who should participate in them?

Answer: The rationale for periodically conducting strategic-management meetings away from the work site is to encourage more creativity and candor from participants. Good communication and feedback are needed throughout the strategic-management process in order to 1) formulate effective strategies and 2) achieve understanding and commitment that are vital to strategy implementation.

1-7. Distinguish between long-range planning and strategic planning.

Answer: Long-range planning is striving to optimize for tomorrow the trends of today, whereas strategic planning is striving to exploit and create new and different opportunities for tomorrow. Strategic planning requires much more work and diligence as indicated by the activities and stages described in the chapter.

1-8. Compare a company's strategic plan with a football team's game plan.

Answer: A strategic plan is, in essence, a company's game plan. Just as a football team needs a good game plan to have a chance for success, a company must have a good strategic plan to compete successfully. Weaker teams with a better game plan very often defeat stronger teams, and the same thing happens in the business world.

1-9. How important do you think "being adept at adapting" is for business firms? Explain.

Answer: Being adept at adapting is vital for survival of business firms (and organisms). The strategic-management process is based on the belief that an organization's survival can depend on how well the firm continually monitors internal and external events and trends and makes timely changes as needed.

1-10. As cited in the chapter, Edward Deming, a famous businessman, once said, "In God we trust. All others bring data." What did Deming mean in terms of developing a strategic plan?

Answer: The strategic-management process can be described as an objective, logical, systematic approach for making major business decisions in an organization. The process attempts to organize qualitative and quantitative information in a way that allows effective decisions to be made under conditions of uncertainty. Mr. Deming insisted on facts and figures because he knew that vague generalities were not helpful in choosing among many attractive alternative strategies. Mr. Deming insisted on seeing #'s, \$'s, ratios, and %'s across regions and products in order to best chart a path forward for any organization.

1-11. What strategies do you believe can save newspaper companies from extinction?

Answer: Newspaper companies could invest more in Internet technologies, including developing nice apps for smartphones, and charging for the apps. Also, they could charge for an online subscription. Perhaps they could shift to a business model of giving away newspapers, while simultaneously enticing advertisers to advertise more, given the expected increased circulation from “free at newsstands and nominal fee for delivery.” Free is a good price, if expenses can be exceeded by advertising revenue. But any strategies pursued should be determined after thorough analysis as described in this text, rather than haphazardly determined.

1-12. Distinguish between the concepts of mission and vision.

Answer: Mission statements are “enduring statements of purpose that distinguish one business from other similar firms.” Vision statements answer the question “What do we want to become?” A vision statement should be one sentence, whereas a mission statement is several sentences, but less than 200 words.

1-13. Your university has fierce competitors. List three external opportunities and three external threats that face your university.

Answer:

Opportunities – 1) The blackboard collaborate technology for online classes has become easier, more popular, and less expensive. 2) The USA economy and GDP is growing 6% annually. 3) Construction costs for building new buildings is declined 14% year-over-year.

Threats – 1) The local tech school has cheaper tuition and easier classes that transfer into our university. 2) Our rival firms all offer a BBA Degree online. 3) There is an 8% decline in population in the last few months in our county.

1-14. List three internal strengths and three internal weaknesses that characterize your university.

Answer:

Strengths – 1) Our College of Business is AACSB accredited at both the BBA and MBA levels. 2) Our average classroom size is 19 students. 3) Our university has a new Nursing Program and Building.

Weaknesses – 1) Only 50% of our business faculty hold a PhD in business. 2) Our university lacks sufficient dorm space for students. 3) Our university lacks sufficient parking for students and faculty.

1-15. List reasons why objectives are essential for organizational success.

Answer: Objectives are essential for organizational success because they state direction, aid in evaluation, create synergy, reveal priorities, focus coordination, and provide a basis for effective planning, organizing, motivating, and controlling activities.

1-16. Why are policies especially important in strategy formulation?

Answer: Policies, like annual objectives, are especially important in strategy implementation because they outline an organization’s expectations of its employees and managers. Policies allow

consistency and coordination within and between organizational departments. Policies can be broad and include rules, regulations, and procedures.

1-17. What is a “retreat” and why do firms take the time and spend the money to have these?

Answer: Retreats are formal meetings conducted semiannually to discuss and update the firm’s vision/mission, opportunities/threats, strengths/weaknesses, strategies, objectives, policies, and performance. Retreats are commonly held off-premises to encourage more creativity and candor from participants. The feeling is that off-premise retreats facilitate communication, shared understanding, and commitment.

1-18. Discuss the notion of strategic planning being more formal versus informal in an organization. On a 1 to 10 scale from formal to informal, what number best represents your view of the most effective approach? Why?

Answer: Formality refers to the extent that participants, responsibilities, authority, duties, and approach are specified. Application of the strategic-management process is typically more formal in larger and well-established organizations. Smaller businesses tend to be less formal. Firms that compete in complex, rapidly changing environments, such as technology companies, tend to be more formal in strategic planning. Firms that have many divisions, products, markets, and technologies also tend to be more formal in applying strategic-management concepts. Greater formality in applying the strategic-management process is usually positively associated with the cost, comprehensiveness, accuracy, and success of planning across all types and sizes of organizations. Informality too often invites guessing, laziness, politics, and emotion, which are generally not good in strategic planning.

1-19. List what you believe are the five most important lessons for business that can be garnered from *The Art of War* book.

Answer: Both business and military organizations must adapt to change and constantly improve to be successful. Table 1-3 provides narrative excerpts from *The Art of War*, but some of the following especially apply to business.

- Analyze the enemy’s plans so that you will know his shortcomings as well as his strong points.
- An army should be likened to water. Just as flowing water avoids the heights and hastens to the lowlands, so an army should avoid strength and strike weakness.
- Unskilled leaders work out their conflicts in courtrooms and battlefields. Brilliant strategists rarely go to battle or to court; they generally achieve their objectives through tactical positioning well in advance of any confrontation.
- When you do decide to challenge a rival, much calculating, estimating, analyzing, and positioning bring triumph.
- Skillful leaders do not let a strategy inhibit creative counter-movement.
- When a decisive advantage is gained over a rival, skillful leaders do not press on. They hold their position and give their rivals the opportunity to surrender or merge.
- Brilliant strategists forge ahead with illusion, obscuring the areas of major confrontation, so that opponents divide their forces in an attempt to defend many areas.

1-20. What is the fundamental difference between business strategy and military strategy in terms of basic assumptions?

Answer: The fundamental difference between military and business strategy is that business strategy is formulated, implemented, and evaluated with an assumption of competition, whereas military strategy is based on an assumption of conflict.

1-21. Explain why the strategic management class is often called a “capstone course.”

Answer: Strategic management is commonly called a capstone course because students’ major responsibility in this class is to use all knowledge gained in prior courses to chart the future direction of different organizations. Students have the opportunity in this course to utilize their marketing, finance, management, MIS, and accounting knowledge.

1-22. What aspect of strategy formulation do you think requires the most time? Why?

Answer: Important aspects of strategy formulation include developing a business mission, performing an external audit, conducting an internal audit, generating alternative strategies, and choosing among alternative strategies. Performing an external audit generally takes the most time. For example, identifying competitors’ strengths and weaknesses is an essential aspect of the external audit. Effective use of the Internet can reduce the time required for performing an external audit.

1-23. Why is strategy implementation often considered the most difficult stage in the strategic-management process?

Answer: Strategy implementation is often considered to be the most difficult stage in strategic management because it requires discipline, sacrifice, commitment, and hard work from all employees and managers. It is always more difficult to do something than to say you’re going to do it.

1-24. Why is it so important to integrate intuition and analysis in strategic management?

Answer: No analytical tools can capture all aspects of a given organization’s culture and situation. Nor can analytical tools assimilate all the subjective information that must be considered in strategic management, such as personalities, emotions, values, beliefs, customs, and ethical factors. However, analytical tools are essential to utilize in strategic planning because they have been developed over many years using actual data, and are effective for assimilating facts and figures. Intuition alone is insufficient for making good strategic decisions. Based on one’s past experiences, judgment, and “gut” feelings, intuition is especially under time constraints, and in assigning weights and ratings in planning matrices. Strategists must integrate intuition and analysis in strategic management, but in the view of this author, analysis is more important than intuition. Unfortunately, too many firms rely too heavily on intuition, and some disastrously rely exclusively on intuition.

1-25. Explain the importance of a vision and mission statement.

Answer: Reaching agreement on a formal vision and mission statement can greatly facilitate the process of reaching agreement on an organization’s strategies, objectives, and policies.

Organizational success depends on reasonable agreement on key issues, so a clear, jointly developed and supported, vision and mission statement is essential in strategic management.

1-26. Discuss relationships among objectives, strategies, and policies.

Answer: Long-term objectives and strategies are products of strategy formulation. Short-term (annual) objectives and policies are products of strategy implementation. Firms should translate long-term objectives into annual objectives. Strategies should be supported with clear policies.

1-27. Why do you think some chief executive officers fail to use a strategic-management approach to decision making?

Answer: Various reasons listed and described in Chapter 1 include: Lack of knowledge or experience in strategic planning. Poor reward structures. Firefighting. Waste of time. Too expensive. Laziness. Content with success. Fear of failure. Overconfidence. Prior bad experience. Self-interest. Fear of the unknown. Honest difference of opinion. Suspicion.

1-28. Discuss the importance of feedback in the strategic-management model.

Answer: As indicated in the strategic-management model, feedback is critically important. Changes can occur at any stage in the process and impact all other strategic-management activities. Feedback allows these changes to be identified and adjustments to be made. Feedback promotes the creation of a climate for two-way communication and, thus, allows esprit de corps to be achieved in an organization.

1-29. How can strategists best ensure that strategies will be effectively implemented?

Answer: Strategists can best assure that strategies formulated will be effectively implemented by involving as many managers as possible in the strategy formulation process. It is important to communicate effectively why changes are needed, and how managers and employees will benefit from the expected results. Good communication yields good understanding yields good commitment, which is essential for good implementation (See Figure 1-2).

1-30. Give an example of a recent political development that changed the overall strategy of an organization.

Answer: Gun control legislation is pending at the federal level and in some state legislatures, which has led to increased demand for ammunition and various guns. So, companies that make ammo and guns have increased production in the short-term, but in the long-term, some are diversifying into related products and services, such as hunting and fishing products.

1-31. Who are the major competitors of your college or university? What are their strengths and weaknesses? What are their strategies? How successful are these institutions compared to your college?

Answer: Answers to this question will vary by institution. But, online courses and online degrees are becoming commonplace. Two-year schools are continually offering 100- and 200-

level classes more cheaply and “easier” than four-year schools, which are more and more focusing on graduate schools. Schools are also becoming more student-friendly, modifying curriculum to be more “practical,” and even offering certifications in some areas.

1-32. In your opinion, what is the single major benefit of using a strategic-management approach to decision making? Justify your answer.

Answer: The single major benefit is the potential for improved understanding of the business and industry on the part of all managers and employees. Understanding generally leads to increased commitment, which, in turn, leads to creativity, innovativeness, and overall cooperativeness. The process is more important than the plan. Also, the strategic-management process allows an organization to initiate and influence, rather than just respond and react to its environment. That is, it allows an organization to be proactive, rather than reactive, in controlling its own destiny. Strategic-management concepts provide an objective basis for allocating resources and for reducing internal conflicts that can arise when subjectivity alone is the basis for major decisions.

1-33. Most students will never become a chief executive officer or even a top manager in a large company. So why is it important for all business majors to study strategic management?

Answer: Strategic management takes place at multiple levels within an organization. Although most students may never become the CEO of a corporation, they may become the “branch manager” or department head or manager. In these roles, they may be asked to participate in development of a strategic plan. Employees at all levels are frequently asked to contribute to development of their firm’s strategic plan. Thus, an understanding of the strategic-management process is important, perhaps for the career development of any business major.

1-34. Describe the content available on the strategy club website at www.strategyclub.com.

Answer: The strategy club website provides the new, free, Excel Student Template designed to help students generate the matrices required for case analyses. The site also provides several sample student case presentations and other resources to benefit strategic management students.

1-35. List four financial and four nonfinancial benefits of a firm engaging in strategic planning.

Answer: Businesses engaging in strategic planning experience many financial benefits, including: 1) significant improvement in sales, profitability, and productivity compared to firms without strategic planning activities, 2) superior long-term financial performance relative to their industry, 3) seem to make more informed decisions with good anticipation of both short and long-term consequences, and 4) better prepared for fluctuations in their external and internal environments. In addition to the financial benefits, firms using strategic planning also experience nonfinancial benefits that include 1) an enhanced awareness of external threats, 2) an improved understanding of competitors’ strategies, 3) increased employee productivity, 4)

reduced resistance to change, and 5) a clearer understanding of performance-reward relationships.

1-36. Why is it that a firm can sustain a competitive advantage normally for only a limited period of time?

Answer: A firm can sustain a competitive advantage for only a certain period of time due to rival firms continually trying to imitate and duplicate strategies, products, and services of the lead firm, in order to take market share from the leader, and build their own competitive advantage.

1-37. Why is it not adequate to simply obtain competitive advantage?

Answer: Rival firms will constantly attempt to undermine firms with competitive advantages and try to imitate/duplicate those advantages/products/services – and perhaps offer similar products at much lower prices. Organizations must constantly strive to achieve sustained competitive advantage by continually evaluating their own strategies/products/services as well as rival firms' efforts to undermine and overcome.

1-38. How can a firm best achieve sustained competitive advantage?

Answer: Sustained competitive advantage can best be achieved by 1) continually adapting to changes in external trends and events and internal capabilities, competencies, and resources, and by 2) effectively formulating, implementing, and evaluating strategies that capitalize upon those factors.

1-39. In sequential order in the strategic-planning process, arrange the following appropriately: policies, objectives, vision, strategies, mission, strengths.

Answer: Vision > Mission > Strengths > Objectives > Strategies > Policies

1-40. Label the following as an opportunity, a strategy, or a strength.

- a. XYZ, Inc. is hiring 50 more salespersons. > A Strategy
- b. XYZ, Inc. has 50 salespersons. > A Strength
- c. XYZ, Inc.'s rival firm has only 50 salespersons. > An Opportunity

1-41. What two factors most often result in a CSO being hired or appointed by the firm?

Answer: While many factors may lead to a firm's decision to appoint a CSO, the authors focused on five key areas that prior research suggests as most important and most likely to lead to a CSO appointment.

- 1) As the business portfolio increases, i.e., as the firm becomes more diversified
- 2) As acquisition activity increases
- 3) As alliance activity increases
- 4) As a firm's size increases
- 5) As top management team interdependence increases

Results of the Menz and Sheef study, given in Academic Research Capsule 1-1, reveal that increased management interdependence and increased acquisition activity were most commonly associated with hiring a new CSO. (Source: Based on Markus Menz and Christine Sheef. "Chief Strategy Officers: Contingency Analysis of their Presence in Top Management Teams." *Strategic Management Journal*. March 2014, 35(3), 461-471).

1-42. Explain why internal strengths and weaknesses should be stated in divisional terms to the extent possible.

Answer: Perhaps the biggest strategic decision facing firms is the extent to allocate monies/resources across divisions/segments, so the underlying information to make those decisions needs to be stated *in divisional terms*, to the extent possible. For example, say that PepsiCo's Frito Lay division's ROI rose to 10% from 5% the prior year, rather than saying PepsiCo Inc.'s ROI is 6%. Factors to be included in formulating strategies should be *actionable*, i.e., should be conducive to determining what specific strategies would benefit the firm given that factor. So, factors stated in divisional terms are excellent.

1-43. Explain why both internal and external factors should be stated in specific terms, i.e., using #'s, %'s, \$'s, ratios, and comparisons over time, to the extent possible.

Answer: Business people already know the vague generalities, and desperately need to know the specifics, in order to decide among many available good alternative strategies. Thus, the underlying external opportunities/threats must be stated in specific terms so give guidance in formulating and selecting alternative strategies. Thus, avoid saying "Canada's GDP is increasing." Instead, say "Canada's expected GDP next year is 6% and Mexico's expected GDP is 3%." Words such as increasing, decreasing, growing, and expanding can mean virtually anything. Avoid vagueness. Vagueness is not helpful in making tough resource allocation decisions among divisions, regions, products, etc.

1-44. Identify the three activities that comprise strategy evaluation.

Answer: The three fundamental strategy-evaluation activities are (1) review external and internal factors that are the bases for current strategies, (2) measure performance, and (3) take corrective actions. The first activity involves determining whether strength/weakness/opportunity/threat facts and figures have changed, which is actually facilitated by activity two, that involves comparing actual performance to expected results across regions and products. The third activity can include altering a firm's vision/mission/objectives/strategies/policies/procedures/organizational chart, etc.

1-45 List six characteristics of annual objectives.

Answer: Annual objectives should be measurable, quantitative, challenging, realistic, consistent, and prioritized.

1-46. Would strategic-management concepts and techniques benefit foreign businesses as much as domestic firms? Justify your answer.

Answer: The answer to this question is YES. But, management style and culture vary considerably across countries, as will be elaborated upon in Chapter 11. For example, northern European countries tend to be more participative in management style, whereas southern European countries tend to be more autocratic (as does Mexico). Many foreign businesses are using strategic-management concepts and techniques effectively. This textbook is very widely used globally, being the best seller in Japan, China, and Mexico.

1-47. What do you believe are some potential pitfalls or risks in using a strategic-management approach to decision making?

Answer: Thirteen risks are listed under the “Pitfalls in Strategic Planning” section of Chapter 1. But, there is a risk of too little top management support for the process. There is a risk of too little involvement by line managers and employees. There is a risk that top managers will underestimate the importance of understanding and commitment.

1-48. What does recent research reveal to be the most important component/activity in the strategic-management process?

Answer: Recent research (described in Academic Research Capsule 1-2) has examined the strategic-management process and concluded that perhaps the most important “activity” is the feedback loop, because strategy must be thought of as a “verb rather than a noun.” Rose and Cray contend that strategy is a “living, evolving conceptual entity,” and as such must be engulfed in flexibility. “Flexibility” should also be reflected in the structures put in place to monitor and modify strategic plans. Flexibility safeguards should increasingly be known and practiced throughout the firm, especially at lower levels of the organization. The stages of strategic management (formulation, implementation, and evaluation) are so fluid as to be virtually indistinguishable when one starts and the other ends. Thus, in the comprehensive model illustrated, the encompassing feedback loop is vitally important to enable firms to readily adapt to changing conditions. A significant change in any activity (box) in the model could necessitate change(s) in other activities. (Source: Based on Rose, Wade and David Cray (2013), “The Role of Context in the Transformation of Planned Strategy into Implemented Strategy,” *International Journal of Business Management and Economic Research*, 4(3), 721-737).

1-49. Strengths and weaknesses should be determined relative to competitors, or by elements of being, or relative to a firm’s own objectives. Explain.

Answer: This is a true statement. An internal factor, such as ROI of 4%, can be stated much better as ROI of 4% vs. Industry Avg. of 14%, or ROI of 4% vs. Company Objective of 2%, or ROI of 4% vs. negative 4% the prior year. Relative strength/weakness deficiency or superiority is vital information in formulating strategies, and is much better than a single number with no comparison over time or to industry average. An example of “elements of being” would be that Firm A owns 10,000 acres of oil lands.

1-50. What are the three stages in strategic management? Which stage is more analytical? Which relies most on empowerment to be successful? Which relies most on statistics? Justify your answers.

Answer: The three stages of strategic management are: strategy formulation, strategy implementation, and strategy evaluation. Because it is the decision-making stage of strategic management, strategy formulation is the most analytical stage. The strategy implementation stage relies most on empowerment to be successful, and hinges upon managers' ability to motivate employees, which is more an art than a science. Strategy evaluation relies the most on statistics, as it deals with reviewing external and internal factors, measuring performance, and analyzing variances between expected vs. actual outcomes.

Answers to the End-of-Chapter 1 Assurance of Learning Exercises

ASSURANCE OF LEARNING EXERCISE 1A: COMPARE BUSINESS STRATEGY WITH MILITARY STRATEGY

ANSWER:

All nine of the military maxims listed in this exercise do have direct business applications, as indicated below. Rankings as to relative importance with rationales will vary by industry and situation.

1. Objective – Numerous benefits of objectives are given in Chapters 1 & 5; objectives are vital for business success.
2. Offensive – As revealed in Chapters 5 & 6, being aggressive is appropriate in many business strategy settings, but not all. Sometimes defensive strategies are best, such as retrenchment and divestiture.
3. Mass – This is almost always applicable in a business setting. Rarely can firms pursue a little bit of many strategies. In contrast, tough strategic decisions must generally be made among many alternative strategies that could benefit the firm – and then commit substantial resources to the chosen direction.
4. Economy of Force – Businesses must cull unprofitable and secondary endeavors, and focus on profitable, growth segments and areas.
5. Maneuver – Gaining and sustaining competitive advantage is a huge need for businesses; this can be achieved by knowing the rival firms and continuously putting those firms at a disadvantage in terms of price and service.
6. Unity of Command – Businesses commonly assign a “champion” for new products, i.e., a lead person. In addition, businesses increasingly delegate accountability and responsibility to a President of various segments.
7. Security – Businesses continuously gather and analyze competitive information trying to never let rival firms surprise them with new products/services/strategies.
8. Surprise – Businesses do seek to put rival firms out of business by aggressively identifying and attacking their weak areas in unsuspecting ways.
9. Simplicity – Businesses realize that good communication leads to excellent understanding, which leads to high commitment to achieve objectives; simplicity rather than complexity is necessary.

ASSURANCE OF LEARNING EXERCISE 1B: GATHER STRATEGY INFORMATION FOR HERSHEY COMPANY

ANSWER:

Possible external opportunities/threats and internal strengths/weaknesses are listed below. The factors were derived from the sources suggested for finding information about Hershey, its rival firms, and the confectionery industry. Make sure students see the difference in internal vs. external factors. Remind students to be as specific as possible in

stating each factor. Remind students also that key external and internal factors need to be actionable, quantitative, and divisional to the extent possible. Ask students to keep this information for use in later exercises.

Strengths

1. Hershey sells products in 70 countries under more than 80 brand names.
2. Hershey has an exemplary philanthropic and sustainability record.
3. Hershey is the leader in the USA in dark and premium chocolate (44% market share).
4. Hershey is the leader in chocolate production in the USA (34% market share).
5. Hershey has 20.3% market share for candy production in the USA.
6. Hershey sales in 2014 increased 2.4% to \$7.4 billion.
7. Hershey has Chocolate World Stores in Shanghai and Singapore.
8. Hershey just acquired Krave Pure Foods Inc.
9. Hershey sales outside the USA are growing 3% annually.
10. The Milton Hershey School for Orphans is the largest of its kind.

Weaknesses

1. Sales are seasonal, lowest outside of holidays.
2. Hershey operates from a functional design with no divisional presidents.
3. High debt makes Hershey financially vulnerable.
4. Hershey spends 1% of revenue on advertising vs. rivals spending 4%.
5. Only 15% of Hershey's revenues are from outside the USA.
6. Only 3% of Hershey's profits come from outside the USA.
7. Nearly 40% of Hershey sales are generated from mass merchandisers.
8. There is only one female among Hershey's top management, and no minorities.
9. Nearly 30% of Hershey's sales come from supermarkets.
10. Hershey profits largely are aimed at supporting the Hershey School.

Opportunities

1. Per capita disposable income increasing 2.8% annually
2. Prices of sugar declining 3% annually
3. Northern Europe consumes twice the chocolate than southern Europe.
4. Chocolate imports are growing 6.6% annually.
5. The candy industry has a 13% profitability average.
6. West Africa produces 70% of the world's cocoa production.
7. Chocolate consumption is growing 2.6% annually.
8. Crude oil prices are low and declining 3% annually.
9. India has overtaken China as the fastest growing country in Asia.
10. More than 40% of the chocolate eaten in the world is consumed in Europe.

Threats

1. Political unrest in West Africa is jeopardizing cocoa bean supply.
2. Cocoa prices rising 10% annually, expected to continue
3. Per capita sugar and sweetener consumption is decreasing 3% annually.
4. Value of the dollar is high and slowly rising further.
5. M&M Mars and Nestle dominate the European and Asian markets.

6. Minimum wages are increasing to \$10+/hour in numerous USA states.
7. Corporate wellness programs discourage candy and chocolate consumption.
8. Nestle has 450 factories compared to Hershey's 10.
9. Candy sales are seasonal, being highest during the 3rd and 4th quarters.
10. Diabetes and obesity are on the rise and spurring healthy eating globally.

ASSURANCE OF LEARNING EXERCISE 1C: UPDATE THE HERSHEY COHESION CASE

ANSWER:

Hershey is continually in the news and posts company news releases at their website (www.hersheys.com). Simply click on Investors, and then see the Press Releases icon and read all the up-to-date news about Hershey. Or, simply go to a site such as www.finance.yahoo.com and enter the stock symbol HSY and then click on Headlines. Select several articles and prepare your executive summary based on that information.

ASSURANCE OF LEARNING EXERCISE 1D: STRATEGIC PLANNING FOR YOUR UNIVERSITY

ANSWER:

Ask students to keep results of this exercise because, at the end of each chapter, at least one exercise applies chapter material to your university. Make sure students see the difference in internal vs. external factors, because Chapter 6 reveals that matching key external with internal factors is a key to effective strategic planning. Ask students to note the need to be as specific as possible in stating each factor. While answers to this exercise will vary for each institution, a sample is provided below.

Strengths:

1. Located in a state capital with several Fortune 500 companies nearby
2. \$200 million technology donation has resulted in high-tech facilities.
3. Diverse (28%) student body and faculty, up from 21% three years prior
4. Visionary presidential leadership
5. Nationally-ranked programs in nursing and business
6. Athletic teams performing excellent, raising college visibility
7. Tuition 15% lower than peer institutions
8. Our engineering and life sciences buildings are new and modern.
9. We operate at full capacity in our dorms.

Weaknesses:

1. Urban campus with limited space for expanding campus
2. Police arrests on campus rising 5% annually
3. Gyms and athletic facilities 30 years old
4. Food service complaints up 11% vs. prior year
5. 30% of faculty are near retirement age and drawing high salaries.
6. Student activity surveys indicate 14% decline in satisfaction.

7. Alumni giving declining 10% annually
8. 30% of classes taught by adjunct faculty
9. Student/faculty ratio of 51 to 1 is higher than peer institutions.

Opportunities:

1. 14% increase in percentage of minority students enrolling in college vs. prior year
2. Need for adult education programs in the area growing 15% annually
3. Demand for international and online programs growing 20% annually
4. Large local firms seek new certification programs from the institution.
5. Demand for nursing graduates growing 12% annually
6. The USA GDP is rising 1% annually.
7. Social media use is growing 6% annually in North and South America.
8. Demand for engineers is growing 5% annually in the USA.

Threats:

1. Pressure from state to admit marginal students in order to provide increased access for underserved minority students
2. Local two-year institutions offer courses 20% cheaper and less rigorous.
3. 15% decline in international student applications
4. 12% annual decline in state funding levels
5. Major rival peer institutions offer and heavily market online degrees in our area.
6. State population declining 4% annually
7. Unemployment rate stable at 9.0% causing many would-be students to have to work
8. The number of high school graduates is dropping 3% annually.
9. The number of two-year tech school students is growing 8% annually.
10. Demand for liberal arts degree students is declining 6% annually.

**ASSURANCE OF LEARNING EXERCISE 1E:
STRATEGIC PLANNING AT A LOCAL COMPANY**

ANSWER: Answers will vary for each student. The following questions could be used to guide the class discussion.

- Were organizations more formal versus informal in planning? How did formality vary by size and type of firm?
- How many of the firms had a written vision and/or mission statement? How did this vary by size and type of firm?
- Did the persons interviewed recognize the benefits of strategic planning? How did the persons interviewed inform the organizations' employees of the strategic plans and the benefits of strategic planning?

**ASSURANCE OF LEARNING EXERCISE 1F:
GETTING FAMILIAR WITH THE STRATEGY CLUB ONLINE**

ANSWER:

A popular Excel Student Template is provided free to all students who use this textbook. Just go to the www.strategyclub.com website. Widely used for more than a decade by both students and businesses for actually doing strategic planning, and improved continually by the authors, the free Excel Student Template enables students to more easily apply strategic-management concepts, while engaging in assurance of learning exercises or case analysis. Using the Template, students can devote more time to applying strategy concepts and less time to the mechanics of formatting strategy matrices, tables, and PowerPoints. It would likely be worthwhile to show in class the 4-minute author video that introduces each chapter in the text. The sample case analyses provided at the website are also excellent.

**ASSURANCE OF LEARNING EXERCISE 1G:
GAME PLANS VS. STRATEGIC PLANS: TEAMS VS. COMPANIES
GETTING FAMILIAR WITH MYLAB**

ANSWER:

Different coaches have different styles. Likely a number of your students in the class are athletes. It is usually interesting and worthwhile to have athletes interview their coach seeking answers to the questions posed, and to report back to the class their findings.

Answers to End-of-Chapter 1 Mini-Case Questions

1. Explain why Kroger is recognized by *Forbes* as one of the most generous companies in America? Is being generous consistent with (or inconsistent with) being highly profitable? Discuss.

The National Business Group on Health recognized Kroger as a Gold winner in the 2014 Best Employers for Healthy Lifestyles awards for its workplace well-being programs for associates and their families. Kroger was the only supermarket to earn this honor. In addition, Kroger recently earned 649 ENERGY STAR certifications for using a variety of practices to increase energy efficiency, employing technology such as LED lights, skylights, and control systems – as well as engaging store associates in energy savings initiatives. Kroger has reduced its average grocery store electricity usage by 35 percent since the year 2000.

The Institute of Business Ethics (IBE) recently did a study titled “Does Business Ethics Pay?” and concluded that companies displaying a “clear commitment to ethical conduct” consistently outperform companies that do not display ethical conduct. Philippa Foster Black of the IBE says: “Not only is ethical behavior in business life the right thing to do in principle, it pays off in financial returns.” Alan Simpson says: “If you have integrity, nothing else matters. If you don’t have integrity, nothing else matters.” Good ethics is good business. Bad ethics can derail even the best strategic plans.

2. Which supermarket do you shop most often and why?

For many consumers, price is a determining factor in shopping for groceries. Some consumers just are not willing to pay more for bananas in one store versus another, certainly not ten cents per pound more. They will say that bananas are bananas. The second variable of special importance is location, i.e., convenience. Most consumers are not willing to drive double or triple the distance to another grocery store farther away. A third variable of importance typically is selection. A broader selection is sometimes worth paying extra or driving extra miles. Certainly there are some consumers who are willing to pay extra and drive extra simply for perceived higher quality and perhaps a more spacious layout.

3. What are the three most important criteria that determine which supermarket you shop? Does Kroger meet your criteria?

For the authors, price, location, and selection are the three most important criteria. Kroger unfortunately does not lead on any of those three variables given where the authors live. The authors usually grocery shop at either Food Lion or Publix.

4. What response would be most appropriate for Kroger if Ahold and Delhaize merge?

Kroger will likely have to lower prices because Food Lion and the other brands generally are lower priced than Kroger already and may become even lower with a merger. Firms oftentimes merge with the expectation to gain economies of scale and efficiencies, thus enabling the merged firms to offer customers lower prices.

5. Go to the website www.finance.yahoo.com and put in KR as the stock symbol, and then click on Profile, Statistics, Competitors, and Headlines. Determine whether Kroger has continued of late performing fantastically. Use this website, among others, throughout this course to gather research about companies.

This is a very useful website to use throughout this course, for three reasons: 1) It is free, 2) It is up-to-date, and 3) It has extensive strategic information about any publicly-held company. At this website, put in KR, then click on competitors, and then you see Kroger compared to Costco Wholesale, Target, and Wal-Mart Stores on 12 financial metrics. Information such as this at this website enables students to obtain \$'s, #'s, ratios, and %'s to include in their strength/weakness/opportunity/threat lists for their assigned case company. Click on Headlines and read about Kroger's most recent financial performance.

6. Determine from the www.finance.com website who are Kroger's two primary competitors, and how is Kroger performing versus those rival companies?

At this website, put in KR, then click on competitors, and then you see Kroger compared to Costco Wholesale, Target, and Wal-Mart Stores on 12 financial metrics.

NOTE – THE FOLLOWING IS AN EXCELLENT, FUN, NOT-IN-THE-BOOK, ADDITIONAL ASSURANCE OF LEARNING EXERCISE FOR CHAPTER 1

EXERCISE TITLE: HOW POTENTIALLY DETRIMENTAL ARE VARIOUS PITFALLS TO AVOID IN DOING STRATEGIC PLANNING?

Purpose

Whenever a firm engages in strategic planning, there are certain potholes or pitfalls that need to be avoided. Being aware of potential pitfalls and being prepared to address them is essential to success. Chapter 1 provides a list of thirteen pitfalls that commonly plague firms and undermine strategic-planning efforts. The following pitfalls can be ranked in terms of how potentially detrimental/severe they are in doing strategic planning. This exercise reveals the authors' ranking of the thirteen pitfalls in terms of how potentially detrimental/severe they are in doing strategic planning. The thirteen pitfalls to avoid in doing strategic planning, as given in Chapter 1, are as follows:

PITFALLS

1. Using strategic planning to gain control over decisions and resources
2. Doing strategic planning only to satisfy accreditation or regulatory requirements
3. Too hastily moving from mission development to strategy formulation
4. Failing to communicate the plan to employees, who continue working in the dark
5. Top managers making many intuitive decisions that conflict with the formal plan
6. Top managers not actively supporting the strategic-planning process
7. Failing to use plans as a standard for measuring performance
8. Delegating planning to a “planner” rather than involving all managers
9. Failing to involve key employees in all phases of planning
10. Failing to create a collaborative climate supportive of change
11. Viewing planning as unnecessary or unimportant
12. Becoming so engrossed in current problems that insufficient or no planning is done
13. Being so formal in planning that flexibility and creativity are stifled

The purpose of this exercise is to examine/discuss how potentially detrimental/severe the various pitfalls are in doing strategic planning. In addition, the purpose of this exercise is to examine whether individual decision making is better than group decision making. Academic research suggests that groups make better decisions than individuals about eighty percent of the time.

Instructions

Rank the thirteen pitfalls as to how potentially detrimental/severe they are in doing strategic planning, where 1 = most detrimental and 13 = least detrimental. First, rank the pitfalls as an individual. Then, rank the pitfalls as part of a group of three. Thus, determine what person(s) and what group(s) in class come closest to the expert ranking. In addition to examining strategic-planning pitfalls further, this exercise enables examination of the relative effectiveness of individual versus group decision making in strategic planning.

The Steps

1. Fill in Column 1 in Table 1 to reveal your individual ranking of how potentially detrimental to strategic planning the pitfalls are, where 1 = most detrimental to 13 = least detrimental. For example, if you feel Pitfall 1 is the 5th most detrimental, then enter a 5 in Table 1 in Column 1 beside Pitfall 1.
2. Fill in Column 2 in Table 1 to reveal your group's ranking of the 13 pitfalls.
3. Fill in Column 3 in Table 1 to reveal the expert's ranking of the 13 pitfalls.
4. Fill in Column 4 in Table 1 to reveal the absolute difference between Column 1 and Column 3 to reveal how well you performed as an individual in this exercise. (Note: For absolute difference, disregard negative numbers)
5. Fill in Column 5 in Table 1 to reveal the absolute difference between Column 2 and Column 3 to reveal how well your group performed in this exercise.
6. Sum Column 4. Sum Column 5.
7. Compare the Column 4 sum with the Column 5 sum. If your Column 4 sum is less than your Column 5 sum, then you performed better as an individual than as a group. Normally, group decision making is superior to individual decision making, so if you did better than your group, you did excellent.
8. The Individual Winner(s): The individual(s) with the lowest Column 4 sum is the WINNER.
9. The Group Winners(s): The group(s) with the lowest Column 5 score is the WINNER.

Table 1 – Pitfalls in Doing Strategic Planning: Comparing Individual versus Group Decision Making

| Pitfalls to Avoid In Doing Strategic Planning | Column 1 | Column 2 | Column 3 | Column 4 | Column 5 |
|--------------------------------------------------|----------|----------|----------|----------|----------|
| 1. | | | | | |
| 2. | | | | | |
| 3. | | | | | |
| 4. | | | | | |
| 5. | | | | | |
| 6. | | | | | |
| 7. | | | | | |
| 8. | | | | | |
| 9. | | | | | |
| 10. | | | | | |
| 11. | | | | | |
| 12. | | | | | |
| 13. | | | | | |

Answer: The Expert Ranking

Pitfalls to Avoid In

Authors' Ranking

Doing Strategic Planning

(1 = most detrimental to 13 = least detrimental)

| | |
|----------------------------------------------------------|----|
| 1. Using strategic planning to gain control | 11 |
| 2. Doing strategic planning only to meet requirements | 4 |
| 3. Too hastily moving to strategy formulation | 3 |
| 4. Failing to communicate the plan to employees | 6 |
| 5. Top managers making too many intuitive decisions | 5 |
| 6. Top managers not actively supporting the process | 7 |
| 7. Not using plans as a standard to measure performance | 8 |
| 8. Delegating planning to a “planner” | 10 |
| 9. Failing to involve key employees | 12 |
| 10. Failing to create a collaborative climate for change | 9 |
| 11. Viewing planning as unnecessary | 1 |
| 12. Too engrossed in current problems to plan | 2 |
| 13. Being too formal in planning | 13 |

Rationale:

The authors have developed strategic plans for many companies. The rankings given above are based on their experience and the readings given at the end of Chapter 1, rather than being based on empirical research. First, millions of businesses, especially small businesses, view planning as unnecessary, so that pitfall is the #1 most potentially detrimental or severe. Millions more businesses report that they are too engrossed in current problems to plan, so that pitfall is the #2 most detrimental when it is encountered. Millions of businesses that do strategic planning in some form move too hastily from vision/mission to deciding/selecting strategies to pursue, bypassing the external and internal audit, so that pitfall is #3. Hundreds of thousands of businesses do strategic planning only to meet accreditation or government requirements, so that pitfall is #4. At thousands of businesses that do strategic planning, the top managers make too many intuitive decisions without using planning matrices or taking the time to gather relevant data and statistics, so that pitfall is #5. The #6 most detrimental pitfall is doing strategic planning but not communicating the plan to employees who then basically work in the dark. The #7 pitfall is top managers not actively supporting the planning process for a variety of reasons ranging from differences of opinion about the process itself to disagreement about the strategies selected for implementation. The #8 pitfall most detrimental is doing strategic planning but not using the plans as a standard to measure performance, basically just filing the planning documents away rather than using them to guide operational and strategic expectations. The #9 pitfall is failing to create a collaborative climate for change; the only constant is change and change must be viewed as essential for the firm to successfully adapt to its external environment. Less potentially detrimental are pitfalls # 10, 11, 12, and 13 listed above that, respectively, dealing with delegating planning to a planner or technocrat rather than using a collaborative approach, using the planning process to gain control over decision making, failing to involve key employees to help facilitate change, and being too formal, ritualistic in the planning process.